ANNUAL REPORT OF THE LIFELINE TELEPHONE PROGRAM 2005

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THE VERMONT TELECOMMUNICATIONS
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THE LINK UP VERMONT PROGRAM

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LIFELINE TELEPHONE PROGRAM
2005

EXECUTIVE SUMMARY

- The number of households receiving Lifeline telephone benefits decreased 2.5 percent from 2004 to 2005, with 25,343 enrolled in December 2004 and 24,699 enrolled in December 2005.

- Lifeline benefits to Vermonters totaled $4,004,463 in 2005, including the federal contribution of $1,030,873 in credits and $1,914,478 in waived Subscriber Line Charges. The state share of total Lifeline credits was $1,059,113, with the balanced paid by the federal Lifeline fund.

- The full cost of the Lifeline Program to Vermont — Lifeline credits plus reimbursed telephone company administrative expenses — was $1,200,165.

- The average monthly benefit to program participants in 2005 was $7.10 plus the subscriber line charge waiver of $6.50, for an average total benefit of $13.60 per recipient per month.

- Link Up Vermont, a joint federal-state program which cuts telephone installation costs in half for eligible households, provided $18,982 to 1,134 Vermonters in 2005. The program is funded completely through federal sources.

- Vermonters made 74,432 calls through the Vermont Telecommunications Relay Service (VTRS) in 2005, accounting for 297,158 minutes of usage. Intrastate calls, which are funded by the Vermont Universal Service Fund, accounted for 78.2 percent of billable minutes.

THE LIFELINE PROGRAM

The history of the program

In 1985, the Vermont General Assembly approved legislation authorizing Vermont to participate in a "lifeline" telephone program set up by the Federal Communications Commission (FCC). The FCC created the program to promote universal service — a policy which originated with the Federal Communications Act of 1934. The universal service concept has evolved over time, but is commonly understood to mean widespread availability of basic service at affordable rates. It has been a mainstay of federal policy for over sixty years.

In the early 1980s, the states and the federal government realized that rapid changes in the telecommunications industry threatened the concept of universal service. Specifically, lower-income households could lose telephone service because of the rising basic rates. The FCC responded by establishing the Lifeline Program to help low-income households counteract the rising cost of phone service.

Vermont, like 41 other states, accepted the FCC's offer to participate in the Lifeline Program, thereby reducing basic telephone rates for qualifying Vermont households. The FCC agreed to waive the monthly Subscriber Line Charge (SLC)[1], which was then $3.50, if the state contributed an equal amount. Vermont went a step further with a "match-plus-two" formula: in addition to the $3.50 waiver, $5.50 was subtracted from basic charges, resulting in a total benefit to qualified applicants of $9 per month. The pressure of rising basic service rates in 1992 led to legislative action increasing the state share of the benefit to 50 percent of charges for basic service, or $5.50, whichever would be greater.

From 1985 through September, 1994, the state contribution for the Lifeline Program was generated through a monthly surcharge on telephone access lines, set by the Public Service Board (PSB). Effective October 1, 1994, the surcharge by legislative action was replaced with a Vermont

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[1]The federal SLC waiver is funded through a federal Universal Service Fund (USF), which receives its support from fees paid by interstate telecommunications carriers. It is now called the "End User Common Line Charge" but the old language has been retained here since it conforms to the Lifeline enabling statute.

Universal Service Fund (VUSF), designed to fund the Lifeline program, the telecommunications relay service, the statewide enhanced 911 system, and, in the future if authorized, reduction of dial-tone charges in high cost areas. The VUSF surcharge, set annually by the PSB, is a percent charge on retail telecommunications services provided to Vermont consumers.

In 1997, the FCC substantially changed the federal Universal Service Fund, making Lifeline available nationwide as of January 1, 1998. At the same time, the FCC increased the share of program costs borne by the federal USF, and made various policy changes to advance the goal of universal service for low income households.

As a result of the 1998 changes, federal funding now provides a total credit of $9.50 per month (including the SLC waiver) to each Lifeline participant, provided that the state matches this amount with at least $3.50. In response to the increase in federal funds, the Vermont legislature made two adjustments in the Lifeline program. As of 1998, 30 V.S.A. § 218 provides a minimum monthly credit of $7. The $7 minimum enables Vermont to utilize the maximum available federal funds in every instance. A person whose basic monthly service charge is $14 or less receives the minimum credit. Basic monthly service above $14 generates a credit calculated at 50 percent of basic service.

Statutory changes in 1998 also created a new means of enrolling in Lifeline. Prior to the changes, persons under 65 were eligible for Lifeline only if they were enrolled in certain public benefit programs administered by the Agency of Human Services, Department of Children and Families (DCF, formerly PATH), Economic Services Division, which also received the applications. Persons 65 and older, with incomes of 175 percent of a federal poverty standard, had a second enrollment option through an application form in the Vermont income tax package.

The amended statute made it possible for persons under 65 to enroll in Lifeline through the Tax Department in the same manner previously provided only for seniors. The income threshold is set at 150 percent of poverty for persons under 65.

In 2000, the Legislature amended 30 V.S.A. § 218 to provide a new benefit for victims of domestic violence. The benefit consists of a waiver of the charges for obtaining and maintaining a non-published telephone number. As of December 31, 2005, no person had ever applied for the benefit.

In 1993, RCC Atlantic, Inc., d/b/a Unicel ("RCC"), received designation from the PSB as an "eligible telecommunications carrier" or "ETC" in territory served by Verizon. Only ETCs receive Lifeline reimbursement from the Federal Lifeline funds, and all ETCs must offer Lifeline and Link-Up. RCC is the first non-incumbent carrier and the first cellular carrier to be granted ETC status in Vermont. On September 29, 2004, RCC received designation as an ETC in the remaining areas of Vermont, those served by the independent telephone companies.

The Lifeline program in 2005

December, 2005 program enrollment represented 8.5 percent of residential telephone lines, a decrease from 2004 when December enrollment included 8.9 percent of residential lines. The number of households receiving Lifeline telephone benefits decreased from 25,343 in December 2004 to 24, 699 in December 2005 reflecting a 2.5 percent decrease. Table 1, on page 12, shows Lifeline participation from 1996 through 2005. Table 2, on page 13, shows Lifeline participation in 2005 by telephone company territory.

Lifeline credits for the year totaled $4,004,463, including the federal contribution of $1,030,873 in credits and $1,914,478 in waived SLCs. The state share of total Lifeline credits was $1,059,113.[2] The full cost of the Lifeline Program to Vermont — Lifeline credits plus reimbursed telephone company administrative expenses — was $1,200,166. (See Table 3, 2005 Lifeline Telephone Program Costs to VUSF, page 14.) The average monthly benefit in 2004 was $13.60 including the SLC waiver (see Table 4, 2005 Average Credit by Company, page 15).[3]

In 2005, 45.3 percent of recipients were enrolled in the program only by virtue of their participation in a DCF program, virtually the same percentage (45.1 percent) as were enrolled in 2004. Tax Department applications alone account for 15.4 percent of participation, while 39 percent of recipients were eligible both through Tax and by virtue of participation in DCF programs.

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[2]These data are derived from Table 4. The federal contribution is estimated based on the federal funding formula. These figures will change slightly following company true-ups which are completed on a fiscal year basis. Failure of components to equal the total is due to rounding error.

[3]The average credit may change slightly following company true-ups.

Outreach activities continued as in previous years. Activities aimed at seniors included promotion by the Department of Aging and Independent Living (DAIL) and Vermont's Area Agencies on Aging and application assistance provided by Area Agencies on Aging, in part through their Senior Help Line. Local telephone companies sent a mandated bill stuffer to all customers describing the program. The Vermont tax booklet included a Lifeline application form. DCF also sent a letter in the spring to all persons who were enrolled in Lifeline through the Tax Department.

In its 2005, DCF carried-out the redesign of the data system used to manage the Lifeline eligibility and enrollment process, using $85,000 in funds appropriated by the General Assembly in 2004 for this purpose. The Lifeline computer program at DCF was designed prior to numerous changes in the Lifeline program that affect the tracking of enrollment and the computer system has not been modified to keep pace with these changes, such as enrollment through the Tax Department of people under 65 added in 1998. Recent increases in the complexity of the telephone market, such as local number portability and local competition, have added a large number of potential participating telephone companies to the mix, and the first three digits of a phone number are no longer a means of identifying what company serves a given consumer. In addition, changes in FCC rules effective in 2004 make certain procedures necessary that could not be accommodated by the old system. These developments make updating the DCF computer system used for tracking Lifeline enrollment increasingly critical to ensure that eligible consumers get their benefits and that the state does not authorize double payment or the payment of benefits to ineligible people. The system redesign has been successfully completed, with only a few complications in the system still being worked out. Early reports indicate the newly designed system is great improvement in efficiency and accuracy over the old.

In 2004, the FCC made significant changes in the rules governing the Lifeline program, including making a federal Lifeline program available in those states that do not have state Lifeline programs.[4] The rules relevant to Vermont mandate eligibility reviews and notice processes for letting

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[4]The states with federal programs offer a significantly lower level of benefits than those with state programs that draw down the full amount of available federal funds.

individuals who become ineligible know they will be dropped from the program. The new rules also address the need for greater public outreach to find and enroll individuals who are eligible. For example, Vermont has been estimated to have only about half of eligible households enrolled. The DPS is currently coordinating an outreach project for the 11 companies that participate in Lifeline, with a primary goal of enrolling refugees and other non-English speaking Vermonters in the program, and a secondary goal of continuing to increase overall enrollment in Lifeline. Although the new verification and notice rules represent significant change, the way Vermont has chosen to deliver its program already has most of the safeguards required by the new rules built into its processes, and the remaining changes were accommodated in the data system redesign done at DCF.

Telephone subscribership among low income Vermonters

The goal of universal telephone service is a matter of Vermont statutory policy[5] which is largely realized through policies intended to maximize subscribership by ensuring basic local phone service remains affordable. The Lifeline discount for basic service and the Link-Up credit to reduce the cost of service installation are two chief examples of these policies.

Without phone service, low-income families find it harder to get jobs, obtain services, participate in their children's education, and manage day-to-day life. The Vermont Lifeline and Link Up programs reduce both the ongoing cost and the initial connection cost barriers to telephone service.

Average telephone subscribership in July 2005 was estimated at 95.6 percent of Vermont households, in comparison to a national average of 94 percent.[6] Although Vermont has a favorable telephone penetration rate, the 4.4 percent of Vermonters without phones is concentrated among low

[5] 30 V.S.A. §7515.

[6] *Telephone Subscribership in the United States,* Alexander Belinfante, Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission, Table 2, November 2005.

income groups, where subscribership is much lower than the average. A 2001 FCC study[7] showed a strong link between household income and telephone subscribership. In March of 2000, 87.5 percent of households with annual income below $10,000 had telephones, compared with 94.5 percent of all U.S. households.[8]

A key focus of the FCC monitoring study cited above was to determine the effectiveness of increased federal support for Lifeline that commenced January 1, 1998. The study demonstrates significantly greater progress toward universal service in states that are taking full advantage of federal support than those states that have opted for lower levels of Lifeline assistance. From March 1997 (before the new federal support) to March 2000, states that are taking full advantage of the federal funds[9] experienced a 2.2 percent increase in telephone subscribership among low-income households, compared to a 1.5 percent increase among all states and less than one percent among those states providing lower levels of assistance. Vermont is among the states participating fully in the Lifeline program.

Program Administration

Several departments of state government, a contracted fiscal agent and the state's Eligible Telecommunications Carriers[10] are involved in the administration of the Lifeline Program. These roles include:

- DCF and the Tax Department handle applications and eligibility certification.

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[7] *Monitoring Report,* Section 6, Subscribership and Penetration, FCC Common Carrier Docket 98-202, October 2001, Table 6.11.

[8] The difference between the two national subscribership figures quoted is a result of differences in data collection methodologies of the two reports.

[9] States take full advantage of the federal funds by matching two-to-one, or $3.50, the discretionary federal contribution of $1.75 per recipient per month.

[10] Verizon, the nine independent local exchange companies, and RCC/Unicel have been designated as eligible telecommunications carriers as of this writing.

- DAIL, mostly through the Area Agencies on Aging, promotes the program to seniors.DPS is responsible for annual reporting to the Legislature, annual projection of program costs and facilitation of the Lifeline Coordinating Committee.
- The PSB ensures sufficient funding through its annual proceeding to set the appropriate level for the Universal Service Fund charge.
- The National Exchange Carriers Association (NECA), acting as the VUSF fiscal agent under a contract with the PSB, collects VUSF surcharges and reimburses phone companies for credits issued to Lifeline customers.
- Local telephone companies issue the Lifeline credits.

DCF has responsibility for issuing a monthly Lifeline eligibility list to telephone companies. This list is comprised of approved applications, made through either DCF or the Department of Taxes, and of program deletions that occur when participants cease receiving DCF benefits and presumably return to financial independence. DCF also issues a list annually at mid year removing the names of recipients who were eligible through the Tax application but have not reapplied for the current year.

Local telephone companies are reimbursed for their administrative costs from the VUSF. State agencies are not reimbursed for their Lifeline program costs.

Agency representatives and the telephone companies meet periodically as a Lifeline Coordinating Committee to discuss program procedures, and to resolve any administrative problems which arise from time to time.

Vermont Universal Service Funding

The Public Service Board annually sets the VUSF charge on retail telecommunications services to meet the funding needs of the programs which the VUSF funds. The rate is capped at 2 percent. The surcharge rate during 2005 was 1.15 percent.

Lifeline costs are budgeted at 27.8 percent of total VUSF expenses in FY 2006. The Vermont Telecommunications Relay Service accounts for 7.5 percent. Enhanced 911 accounts for 60.5 percent. The balance went to administrative and audit costs of the VUSF fiscal agent.

LINK UP VERMONT PROGRAM

The Link Up Vermont program lowers financial barriers to the initiation of telephone service, thus complementing the Lifeline Program, which lowers financial barriers to the continuation of service. The program cuts telephone installation charges in half for low income Vermonters and is paid for through an interstate revenue pool, which was established by the FCC and is administered by the Universal Service Administrative Company (USAC). The phone companies are reimbursed through USAC. No state funds are involved. Vermont supports the program by administering Link Up applications.

In 2005, telephone companies rebated $18,982 to 1,134 individuals. This represents a 16.3 percent decrease in program participants and less than a percent decrease in costs compared with 2004 data.

Federal rules now require that states maintain the same eligibility guidelines for Link-Up and Lifeline. Phone companies issue Link Up benefits to any person who demonstrates Lifeline eligibility.

VERMONT TELECOMMUNICATIONS RELAY SERVICE

On March 20, 1991, Governor Richard Snelling signed Act 6 of the Vermont General Assembly establishing a full-time, 24-hour-a-day telecommunications relay service to connect deaf, hard-of-hearing, and speech disabled Vermonters with the telephone network.

A relay service provides specially trained communications assistants to relay messages between hard-of-hearing, speech disabled, or deaf people and people who can hear. To communicate, a hard-of-hearing, speech disabled or deaf person uses a text telephone (TTY) — a telephone with a keyboard and a small screen — to type his or her part of the conversation. The communications assistant simultaneously receives and reads the messages to the hearing person at the other end of the line. The communications assistant then types back the hearing person's spoken words to the TTY user.

Between 1988 and 1990, a volunteer relay center operated at the Austine School for the Deaf in Brattleboro. In 1990, the DPS solicited competitive bids as required by state law and awarded to the Austine School a contract for a part-time, transitional relay service, funded by a $.04 surcharge on telephone access lines.

A permanent relay service, mandated in the 1991 legislative session, was initiated on July 1, 1991, with the DPS as the responsible state agency. After a competitive bidding process and approval by the Public Service Board, AT&T was awarded a contract for the Vermont Telecommunications Relay Service (VTRS) through June 1994. Additional competitive bid processes have been conducted every four years beginning in 1993 (for the award of the contract that began July 1, 1994). From 1994 through 2002, AT&T won the contract and provided Vermont's relay service. A competitive bid process for the contract cycle beginning July 1, 2002, was commenced by DPS in October, 2001, with public forums around the state to assess user needs. Following an approval process before the PSB, the new contract was awarded to Sprint, which began providing service, following a smooth transition between providers, on July 1, 2002. The contract was for two years with the option to extend for an additional two years. DPS exercised the extension option, which commenced July 1, 2004. A new request for proposal (RFP) was issued in November, 2005, with bids due in early 2006. The contracting process was underway at the time of this writing.

Vermont's relay service program was certified by the FCC as meeting all required standards in July of 1993, and was recertified in 1997 and 2002.

Vermonters made 74,432 calls through VTRS in 2005, accounting for 297,158 minutes of usage.The state must pay only for the cost of relaying intrastate calls, which represented 78.2 percent of all billable minutes in 2005. Interstate, international, internet-based and video relay services are paid for by federal relay service funds.

The VTRS has an advisory council chaired by the Department of Public Service and comprised of representatives of the telephone industry and the deaf, hard-of-hearing, and speech disabled communities. The Council meets quarterly.

VERMONT TELECOMMUNICATIONS EQUIPMENT DISTRIBUTION PROGRAM

Act 135 of the 1997 Vermont General Assembly (enacted in 1998) established a new program to be funded by the VUSF as a part of the telecommunications relay service statute. This program provides adaptive telecommunications equipment, such as TTYs, to persons who cannot use the telephone system without this equipment.

The statute provides $75,000 per year of funding from the VUSF. Originally, the program was established with the same income guidelines as the Lifeline program for persons over 65 (175 percent of the federal poverty standard for a family of two). Benefits were capped at $400 per recipient. In addition, the law required the PSB to adopt rules or an order for the equipment program's operation, taking into consideration "(1) prior benefits, (2) degree of functional need, (3) income, (4) number of applicants, and (5) disposition of equipment upon change of residence."

In accordance with statute, the PSB adopted program guidelines in 1998 that set up a grant program in which eligible individuals identify the qualifying equipment they wish to purchase, and apply to the program for a grant to cover the purchase. For those who meet income and disability screening criteria, benefits under the program are available on a first-come, first-served basis until funding has run out for the year. Grants on behalf of eligible persons are paid directly to the consumers' equipment dealer of choice.

The statute establishing the equipment program requires DPS to conduct a competitive bid process to select a vendor to operate the program. This process resulted in an initial contract with the Vermont Center for Independent Living, which served as the program vendor from 1999 through 2004. In 2004, the most recent competitive bid process resulted in award of the contract to the Vermont Center for the Deaf and Hard of Hearing.

During the 2000 legislative session, the Vermont General Assembly enacted legislation to correct three eligibility problems that VCIL and the equipment program advisory council had identified with the program: (1) people with physical disabilities were not covered by the enabling statute despite their potential need for adaptive equipment, such as voice activated dialers, to use the phone; (2) the lack of a sliding income scale excluded low income families with children who would qualify if income eligibility was based on family size; and (3) some people had equipment already and needed repairs rather than replacement, but repairs were not eligible for reimbursement under the original statute.

Despite the changes made in 2000, which were effective July 1, 2000, the contractor continued to report that many needy Vermonters are over-income for the program. Legislation passed in the 2001 legislative session expanded income eligibility and lifted the $400 cap on benefits per recipient. Adjustments to the program guidelines recommended by the Advisory Council to implement the new law were approved by the PSB in the fall of 2002, and program promotional materials and applications reflecting the new guidelines went into distribution in March of 2003. Despite the changes, a portion of programs funds continued to go unexpended in FY04. Year-to-date results in FY05 suggest the new vendor has been more effective in outreach and funds likely will not be lapsed in the current year.

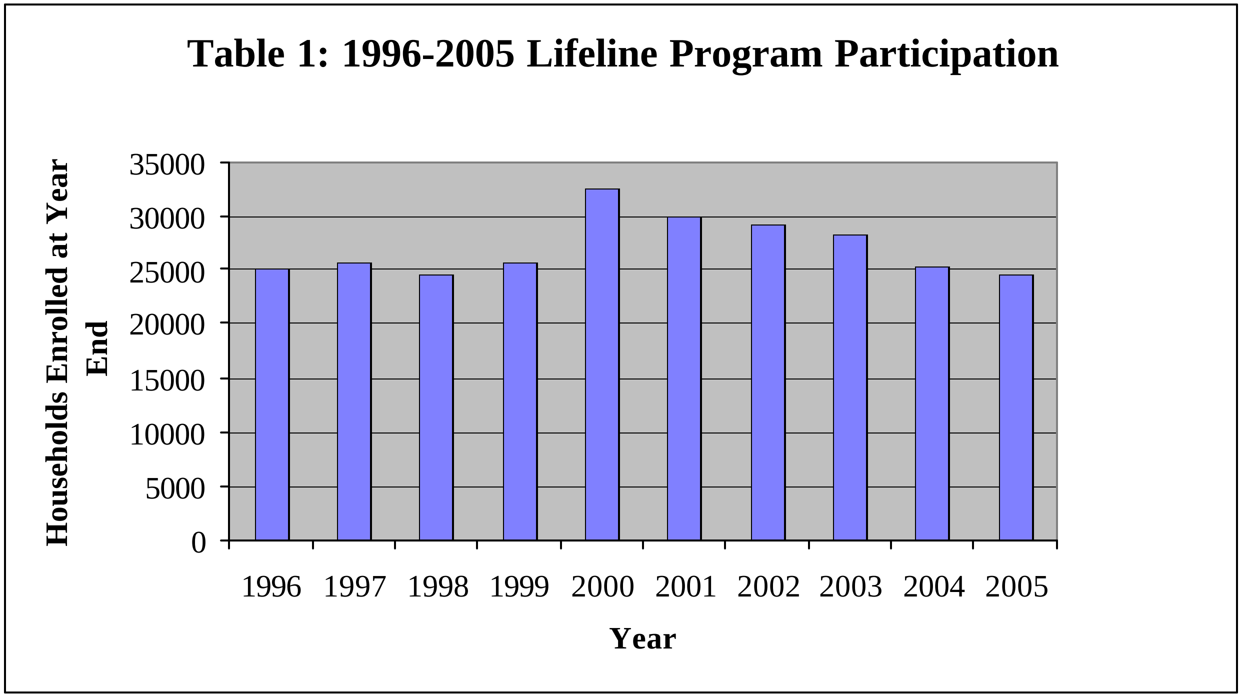
Table 1: 1996-2005 Lifeline Program Participation
Households Enrolled at Year End
35000
30000
25000
20000
15000
10000
5000
0
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Year

Table 2: Lifeline Participation by Company
As of December, 2005

Telephone Company	*Total Residential Access Lines**	*Number of Lifeline Recipients*	*% of Total Residential Lines with Lifeline*
Verizon	236,388	18,844	8.0%
Vermont Telephone	16,632	1,762	10.6%
Waitsfield/Champlain Valley	17,273	1,616	9.4%
Fairport-Northland	5,850	845	14.4%
RCC Atlantic (Unicel)	**	528	
Ludlow	3,970	210	5.3%
Northfield	2,414	287	11.9%
Shoreham	3,304	273	8.3%
Topsham	1,530	164	10.7%
Perkinsville	861	89	10.3%
Franklin	857	81	9.5%
Total	289,079	24,699	8.5%

* From 2004 company annual reports

**RCC does not report total customers

Table 3: 2005 Lifeline Telephone Program Costs to VUSF

Telephone Company	*VUSF Funded Credits*	*Administrative Costs*	*Total Costs*	*Admin. Costs as a percent of program costs*
Verizon	$806,593	$126,246	$932,838	13.5%
Vermont Telephone	$75,803	$4,824	80,627	6.0%
RCC Atlantic (Unicel)	$31,338	$0	31,338	0.0%
Waitsfield-Champlain Valley	$53,407	$6,326	59,733	10.6%
Fairpoint-Northland	$43,572	$900	44,472	2.0%
Northfield	$12,450	$413	12,863	3.2%
Shoreham	$11,858	$768	12,626	6.1%
Ludlow	$9,604	$670	10,274	6.5%
Topsham	$7,256	$315	7,571	4.2%
Franklin	$3,409	$472	3,881	12.2%
Perkinsville	$3,826	$119	3,945	3.0%
Total	$1,059,113	$141,053	$1,200,166	11.8%

*Costs in this chart reflect only the state share. Federal funding provided approximately $3.5 million of additional support including the Subscriber Line Charge waiver as shown in Table 4.

Table 4: 2005 Average Lifeline Credit by Company

Telephone Company	*State Funded Credits*	*Est. Federal USF Credits*	*Estimated SLC Waivers*	*Number of Monthly Credits Issued*	*Average VUSF*	*Federal USF Credit*	*SLC Waiver*
Verizon	$ 806,592.50	$ 806,593	$1,497,958	230,455.00	$ 3.50	$ 3.50	$ 6.50
Vermont Telephone	75,802.90	67,918	126,133	19,405.00	3.91	3.50	$ 6.50
RCC Atlantic (Unicel)*	31,337.50	19,075	35,425	5,450.00	5.75	3.50	$ 6.50
Waitsfield & Champlain	53,406.50	53,407	99,184	15,259.00	3.50	3.50	$ 6.50
Fairpoint-Northland	43,571.89	35,480	65,891	10,137.00	4.30	3.50	$ 6.50
Northfield	12,449.50	12,450	23,121	3,557.00	3.50	3.50	$ 6.50
Shoreham	11,858.00	11,858	22,022	3,388.00	3.50	3.50	$ 6.50
Ludlow	9,604.00	9,604	17,836	2,744.00	3.50	3.50	$ 6.50
Topsham	7,255.50	7,256	13,475	2,073.00	3.50	3.50	$ 6.50
Franklin	3,409.00	3,409	6,331	974.00	3.50	3.50	$ 6.50
Perkinsville	3,825.50	3,826	7,105	1,093.00	3.50	3.50	$ 6.50
Total	$1,059,113	$1,030,873	$1,914,478	294,535	$ 3.60		

Total benefits to participants		$4,004,462.79
Average monthly credit per participant	State share	$ 3.60
	Federal share	$3.50
	Average SLC waiver	$6.50
	Avg. monthly credit per participant	$13.60